

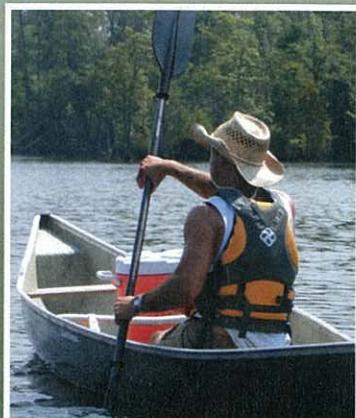
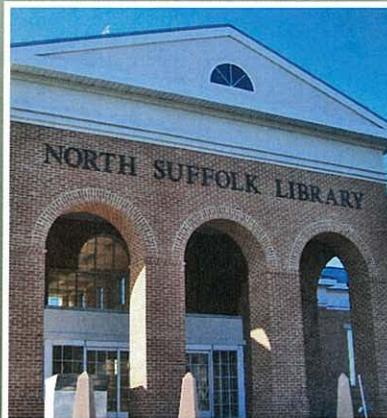
Suffolk

VIRGINIA



City of Suffolk, Virginia

**Adopted Annual Operating Budget
FY 2009-2010**





FY 2009-2010 Operating & Capital Budget

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City Manager's Message





CITY OF SUFFOLK

P.O. BOX 1858, SUFFOLK, VIRGINIA 23439-1858 PHONE: (757) 514-4012

CITY MANAGER

July 31, 2009

The Honorable Council
City of Suffolk, Virginia

Dear Council Members:

I am pleased to present a copy of the FY 2009-2010 Operating and Capital Budget as adopted by City Council at the May 6, 2009, Council meeting. As you are well aware, this was an extremely challenging budget year as our national and state economies are experiencing the worst economic recession since the Great Depression. The City of Suffolk is not immune from the current economic crisis and faced a **\$9.3M** shortfall in developing the FY 10' budget including a **\$7M** decline in personal property, sales tax, business license, recordation tax, and interest on investment revenue and **\$2.3M** in increased service requirements associated with new buildings and facilities, debt service, capital improvements (Pay-Go Policy), utility costs, juvenile detention costs, landfill post closure monitoring costs (Hosier Landfill), and others.

Preparing and adopting a budget in this volatile economic climate was a daunting task; however, with the leadership of City Council and cooperative spirit demonstrated by city department heads and Suffolk Public School representatives, we were able to come together to share in the sacrifice for the greater good of the City of Suffolk.

The adopted FY 2009-2010 Operating and Capital Budget addresses the operational and capital needs of the 14 various funds required for the operation of City services in the amount of \$452,732,139. This represents a **9.2% decrease** from the adopted FY 09' budget. The proposed General Operating Budget is \$164,274,930, a **\$6.4M decrease or 4% reduction** over the current fiscal year.

Strategic Budget Priorities

Notwithstanding the budgetary challenges confronted by the City, the adopted FY 10' budget strives to:

- **Balance Competing Demands for Services with No Tax Increase to Citizens** – The adopted FY 10' budget maintains the citywide real estate tax rate at \$.91 per \$100 with limited reduction in services to citizens.
- **Maintain Core Services and Critical Personnel Resources to Serve Citizens** – The continued provision of core services is paramount to

maintaining a high quality of life for our citizens. As such, no reductions in core services have been programmed in the adopted FY 10' budget. Likewise, the personnel resources required to deliver services to our citizens have been protected. Only two non-essential full-time positions have been eliminated in the adopted FY 10' budget due to streamlined management changes that will improve the operational efficiency and effectiveness of the City organization.

- **Fulfill the Commitments to Open and Continue the Operation of New Facilities** – Several new facilities have opened or are in the process of being constructed to provide for enhanced services to the citizens of Suffolk including the new East Suffolk Recreation Center, the new Kings Fork Public Safety Building, the new Health and Human Services Building, and the new Police Administration Building. The cost of operating these facilities is programmed in the adopted FY 10' budget to ensure that commitments made to the public are satisfied.
- **Preserve Employee Compensation and Critical Employee Benefits** – Employee compensation and critical employee benefits are preserved in the adopted FY 10' budget. No decreases in employee salaries or reductions of core employee benefits have been proposed to assist in balancing the budget. However, non-essential on-call pay and supplemental benefits including the tuition reimbursement program, employee service awards, minimal uniform and clothing expenses, out of city take home vehicles, and flu shots for firefighters have been eliminated to assist in balancing the budget.
- **Protect the Financial Progress Made Toward “Best Management Practices”** – In December 2007, Council adopted revised Financial Policies to ensure sound financial management practices and stewardship of taxpayer dollars. The adopted FY 10' budget complies with these financial policies and continues the “Best Management Practices” adopted by Council.

Cost Saving Measures and Budget Balancing Solutions

A strategic approach was employed to develop the FY 10' budget and address the **\$9.3M** shortfall. As part of the budget development process, city departments were asked to submit reduction plans, a summary of programs and services labeled as mandated, essential, or supportive in nature, as well as recommendations for reducing operating costs citywide. Cost saving ideas were evaluated and prioritized to produce **\$4M** in savings to the General Fund. However, even with the implementation of cost saving measures, other balancing solutions and reductions to our service partners were necessary and all city departments, offices, and affiliated organizations will absorb reductions in funding.

Capital Projects Fund

The adopted FY 10' budget delays the issuance of General Obligation debt for General Government projects recommended in the FY 2010-2019 Capital

Improvements Plan (CIP). Over **\$25M** in non-essential capital projects approved in the CIP have been deferred. Only a limited number of essential capital projects are included in the adopted FY 10 budget. In addition to deferring projects, approximately **\$1.6M** in funding loaned to the Risk Fund in FY 08' will be repaid to support one-time capital project expenses. As a result, no issuance of General Obligation debt is required in FY 10'.

Utility Fund

Continuing challenges exist for our growing city in the area of Public Utilities given recent impacts of the national economy. As such, the adopted utility fund budget includes reduced capital funding for planned Capital Improvements per the adopted CIP to minimize the economic impact on future water and sewer rates.

Closing Remarks

In closing, the adopted FY 2009-2010 Operating and Capital Budget is designed to address the core service needs of our community in support of Council's strategic priorities. A wide range of cost saving measures and balancing solutions were implemented to ensure the adoption of a balanced budget that maintains core services, addresses the increased operational costs required to open and maintain new city facilities, complies with the City's financial policies and prevents significant layoffs and reductions in employee benefits.

As City Council is aware, we must remain vigilant in our search for new cost control measures and move forward with caution in our new budget year on all spending measures given the volatile economic climate. I firmly believe that the current economic crisis presents us with an opportunity to strengthen our city government and improve the way we do business for the good of the entire community.

Again, thank you for your continued support and leadership.

Respectfully,


Selena Coffee-Glenn
City Manager

Attachment

pc: C. Edward Roettger, Jr., City Attorney
Erika S. Dawley, City Clerk
Patrick Roberts, Deputy City Manager

Budget Document Overview





HOW TO READ THE BUDGET DOCUMENT

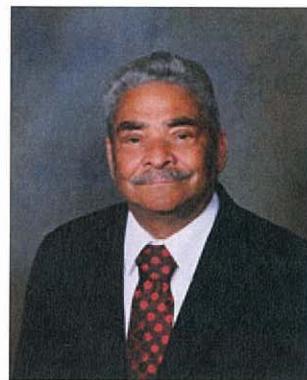
The Operating Budget Document consists of four sections detailed below. Comparative historical data, projections, explanatory notes and highlighted information have been included to assist the reader.

- I. **City Manager's Message** - includes budget highlights and significant changes from the prior year, priorities, goals, short and long term initiatives, and policy guidelines for the Operating and Capital Budget.
- II. **Budget Document Overview** - includes general and high level information to address:
 - How to Read the Budget Document
 - City Council
 - City Council Guiding Principles
 - City Organization Chart
 - Strategic Planning and Budget Development Process
 - Budget Development Calendar
 - City Financial Structure
 - Summary of Financial and Budget Policy Compliance
- III. **Fund Summaries and Details** – includes a summary of significant issues and changes by Fund as well as detailed revenue estimates and appropriations for each Fund.
 - Executive Summary By Fund
 - All Funds Revenues and Expenditures Summary
 - Revenue Analysis
 - General Fund Revenue Summary
 - General Fund Expenditure Summary
 - Fund Specific Revenue and Appropriation Details
- IV. **Appendices of Supporting Budget Documents** – includes important statistics, details, and definitions supporting the Operating and Capital Budget.
 - Personnel Summary by Fund
 - Capital Improvements Plan (CIP)
 - Five Year Budget Projections
 - Statistical Analysis
 - Budget Adoption Ordinance
 - Glossary of Terms

City Council of the City of Suffolk



Linda T. Johnson
Mayor
At Large
Term Expires: 12/31/2012



Curtis R. Milteer, Sr.
Vice Mayor
Whaleyville Borough
Term Expires: 12/31/2012



Joseph H. Barlow
Councilman
Chuckatuck Borough
Term Expires: 12/31/2010



Charles F. Brown
Councilman
Cypress Borough
Term Expires: 12/31/2010



Jeffrey L. Gardy
Councilman
Holy Neck Borough
Term Expires: 12/31/2010



Leroy Bennett
Councilman
Nansemond Borough
Term Expires: 12/31/2012



Robert C. Barclay IV
Councilman
Sleepy Hole Borough
Term Expires: 12/31/2012



Charles D. Parr, Sr.
Councilman
Suffolk Borough
Term Expires: 12/31/2010

Guiding Principles

Affordability

The City commits to follow prudent financial practices in funding capital improvement projects in accordance with the City's adopted financial policies and procedures for acceptable debt capacity and affordability.

Investment in Economic Development for Future Returns

The City commits to invest in economic development to ensure a strong economic base and maximize future returns on investment.

Prioritizing and Completing Capital Projects

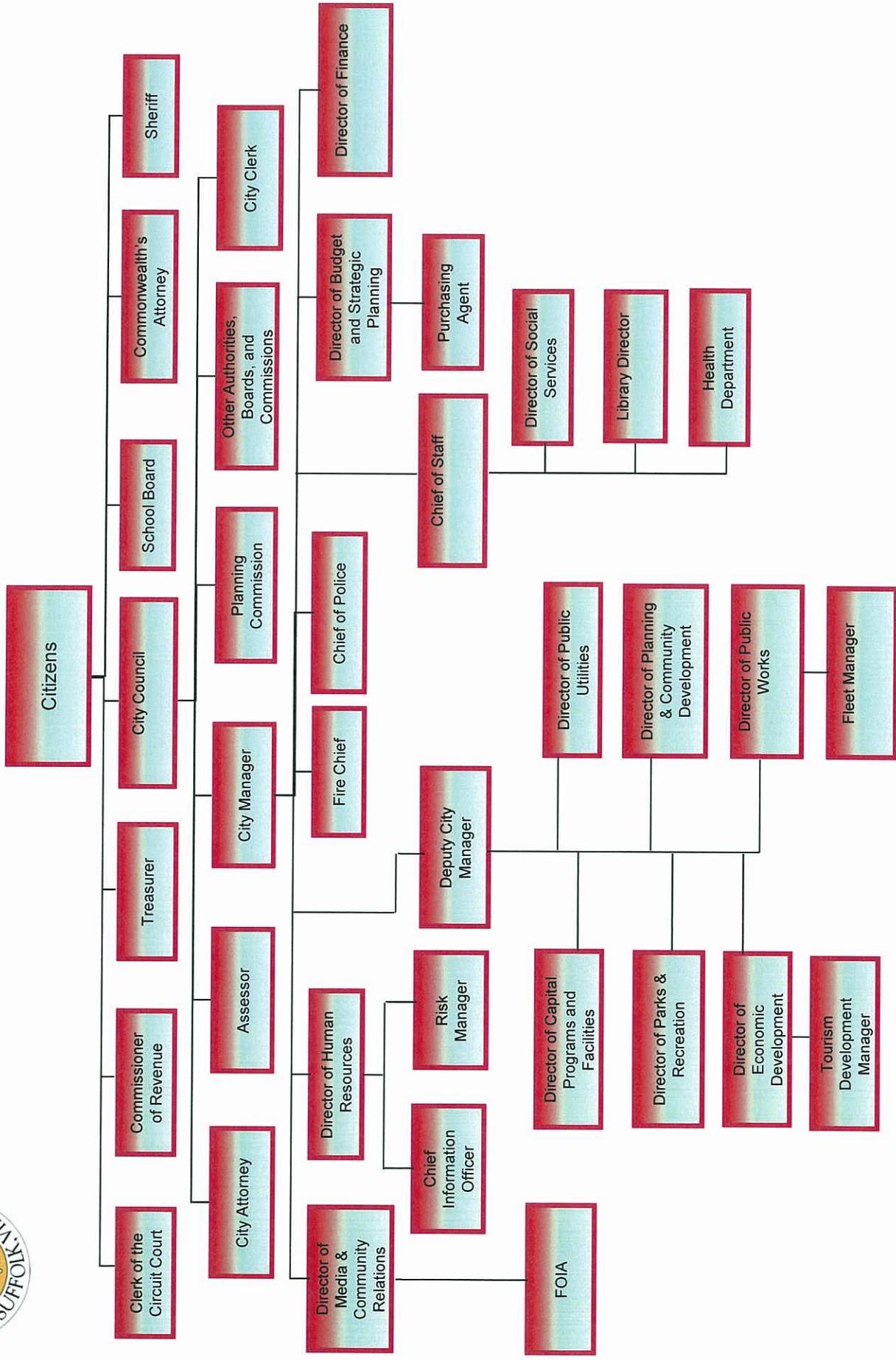
The City commits to take a strategic approach in addressing the needs of the City by prioritizing and completing capital improvement projects.

Planning, Documenting and Funding All Capital Project Requirements

The City commits to plan and fund capital improvement projects by incorporating the total funding requirements for completion, inflation, and operations into future construction costs.



City of Suffolk FY 2009-2010 Operating and Capital Budget Organizational Chart





STRATEGIC PLANNING AND BUDGET DEVELOPMENT PROCESS

The City of Suffolk's Annual Capital Planning process and Annual Operating and Capital Budget process begins each year in October and concludes after the final adoption by City Council, prior to June 30th of the following year. The budget process is designed to include an analysis of each department's budget and to allocate resources across departmental programs based on the strategic plans, goals and directions provided by City Council and a thorough examination of programs and justifications. Each activity that is funded is reviewed by the City's Budget Officer, the City Manager, and the City Council.

Long and Short Term Strategic Planning:

A citizen survey is conducted biennially by an independently contracted company to obtain feedback and assess citizen satisfaction with the various services provided by the City. The survey is conducted on a statistical sample of the City's population. The Office of Media and Community Relations reports the results to Council at the annually held fall Council Retreat.

The annual Council retreat focuses on the City's goals, visioning, land use, and important financial matters. Topics include issues associated with the City's Ten Year Comprehensive Development Plan, and significant service issues from staff and Council. Council develops its vision and a list of priorities and staff provides Council with recommended strategic initiatives to be addressed in the short and long term future of the City.

Short and long term strategic initiatives are developed and updated for use in the development of the City's ten year Capital Improvements Plan (CIP) and Annual Operating and Capital Budget.

Annual Five-Year Budget Forecast:

The Budget Office produces a Five-Year Budget Forecast annually to evaluate the total amount of available resources and total amounts of anticipated costs over a five year period. It incorporates levels of anticipated revenues over the next five years, the projected levels of operating costs, the anticipated levels of debt service for the Capital Improvements Plan, and the anticipated operating costs associated with all new capital facilities. In turn, the first year of the Five-Year Budget Forecast is used as a framework from which to develop the guidelines and targets for the Operating Budget. The Five-Year Forecast is used to determine the level of funding the City will have to support its Capital Improvement Plan within the debt policy constraints adopted by the City.

Development of the Annual Capital Improvements Plan (CIP):

The City of Suffolk begins the development of its Annual Capital Improvements Plan (CIP) in October to address in detail the five year plan and additional five year horizon for needed City capital improvements. A recommended CIP is developed by the City Manager with input from the various departments of the City.

The City Manager's recommended plan is reviewed by a CIP Committee consisting of the two Council elected representatives on the City's Finance Committee and two designated members of the City Planning Commission. The CIP Committee reviews the proposal and specific projects with the City Manager and directs adjustments and forwards its recommended plan to the full Planning Commission. The Planning Commission



reviews, directs edits, and recommends the document to the City Council who receives the plan, holds a public hearing, edits as necessary and adopts the plan.

The CIP process is concluded in January prior to the development of the Annual Operating and Capital Budget. The first year of the adopted CIP is incorporated into the City Manager's Proposed Annual Operating and Capital Budget.

Development of the Annual Revenue Estimates and Operating and Capital Budget:

The development of the Annual Operating and Capital Budget begins in November with the assembly of a budget development committee comprised of appointees by the City Manager. Standing committee members include the City Manager, the Deputy City Manager, and the Budget Officer.

The City Manager's budget committee holds a planning meeting in November to create the budget work plan and calendar with oversight responsibility assigned to the City's Budget Officer. This work plan is designed to incorporate a rigorous internal review of service areas, work processes, and cost centers in need of strategic analysis to address the efficiency and effectiveness of the City.

Community budget meetings are held in January to gather taxpayer's input, suggestions, and comments for the development of the City Manager's proposed budget. These comments are documented and shared with City Council.

Budget requests for each activity of the City are submitted digitally to the Budget Officer for compilation and review by the City's budget committee. Accountability exists to support every dollar requested with detailed support and explanations. Meetings are held with each department to review their submission and programs, address questions and possible solutions to improve efficiency and effectiveness. Follow-up meetings are later held to review the City Manager's recommended budget with each department and address any remaining issues.

Revenue estimates and projections are developed by the Budget Officer and affirmed by a cooperative review of the City's Treasurer, Commissioner of the Revenue, and Assessor. Estimates are derived at the line item level projecting the current year's revenue and estimating anticipated revenues for the following fiscal year based on both historic trend information and other known revenue factors. Such factors include actions of the State General Assembly and City Council as well as impacts of the current economy on local and State revenue receipts.

By March 15, the City Manager submits a proposed operating and capital budget for the fiscal year commencing July 1st to the City Council. This budget includes all proposed revenue sources and estimates with recommended expenditures for all funds required to support the City's operations and capital projects. In accordance with the City Charter, the budget transmitted by the City Manager to the City Council must be balanced, meaning that expenditures recommended by the City Manager must not exceed estimated revenues.

Public information meetings are held to review the contents of the City Manager's proposed operating and capital budget to inform interested residents of the City.



Work sessions are conducted with City Council to review the contents of the proposed budget and receive comment and changes as directed by Council.

A public hearing is held for Council to receive public comment on the proposed Operating and Capital Budget. Prior to July 1, the City Council makes its final revisions to the proposed budget and adopts the budget by resolution.

Funds are appropriated at the Fund level through an appropriations resolution. Budgets for all funds are adopted on a basis consistent with generally accepted accounting principles applicable to governmental units. Budgeted amounts reflected in the financial statements are as originally adopted, unless amended by the City Manager or City Council.

Appropriations for all funds lapse at the fiscal year end with exception to outstanding encumbrances stated in a "not-to-exceed" amount in the adopted appropriations resolution for all ongoing projects and programs.

The City Manager is authorized to amend appropriations by transferring unencumbered amounts within the appropriated funds. Otherwise, amendments that alter the total appropriation of any fund must be approved by the City Council.

During the year, the City Council may approve amendments to original appropriations, primarily as a result of various federal and state grant awards. The City Manager is authorized to reallocate funding sources for capital projects, including bond interest earnings to minimize arbitrage rebates and penalties.



CITY OF SUFFOLK, VIRGINIA BUDGET DEVELOPMENT CALENDAR

October – January

- Capital Improvement Plan Budget development and adoption

November

- Budget Development Planning – Senior Management Team

December

- Budget Packages Distributed to Departments / Agencies
- Budget Requests Due from Internal Service Funds

January

- Public Meetings to Receive Public Input
- Budget Requests Due (non-Internal Service Funds)

February

- Budget Development Committee – Meetings with Requesting Departments / Agents

March

- School Board Budget Request Received by City Council
- Revenue Projection Committee Meetings
- City Manager Budget Deliberations
- ***City Manager's Proposed Budget Finalized***

April

- City Manager's Proposed Budget Presented to City Council
- ***City Council Budget Work Sessions***
- Budget Public Information Meetings
- Public Hearing Advertisement for Proposed Budget

May

- ***City Council Public Hearing on Proposed Budget & Tax Rate Ordinance***
- ***Adoption of City and School Budget & Tax Rates by City Council***



CITY FINANCIAL STRUCTURE

Description of Account Structure

Accounts of the City are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances/retained earnings, revenues and expenditures/expenses. The following fund types are used by the City of Suffolk:

Governmental Fund Types

Governmental Funds are those through which most governmental functions of the City are financed.

General Fund is the general operating fund and is used to account for most day-to-day activities of the City. Its revenue sources are local tax revenues, state and federal revenues and other local charges and fees. A significant part of the General Fund's revenues is transferred to other funds and component units, principally to finance the operations of the City of Suffolk Public Schools.

Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary fund types).

Debt Service Fund is used to account for the payment of general long term debt principal, interest and related costs. Revenues in this fund are derived by a transfer from the City's General Fund to cover required debt service payments.

Special Revenue Funds are used to account for the proceeds of certain specific revenue sources that are legally restricted to expenditures for specific purposes and cannot be diverted to other uses. The City uses the following special revenue funds:

- **Road Maintenance Fund** is to account for revenues and expenditures related to the maintenance of roads and bridges. Revenues are derived primarily from the State Urban Street Maintenance Program.
- **Consolidated Grants Fund** is to account for revenues and expenditures involving governmental grant program operating expenditures.
- **Transit System Fund** is to account for the operation of a transit system in the City. Revenues are generated from grants and charges for services, and a significant general fund appropriation.
- **Law Library Fund** is to account for the operation, maintenance and purchase of law materials for the City's Law Library. Revenues are obtained by the collection of fees on court cases processed through the Circuit and District Courts.
- **Route 17 Taxing District** is to account for revenues and expenditures related to services provided in the Route 17 Taxing District. Revenues are derived from a specific additional real estate tax levy in the district.
- **Downtown Business Overlay Taxing District** is to account for revenues and expenditures related to services provided in the Downtown Business Overlay District. Revenues are derived primarily from a specific additional real estate tax levy.



Proprietary Fund Types

Proprietary Funds are used to account for the City's ongoing organizations and activities, which are similar to those often found in the private sector. The measurement focus is upon the determination of net income and financial position and cash flows. The City utilizes the following proprietary fund types:

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges.

- **Utility Fund** is to account for the provision of water and sewer services to City residents. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operation, maintenance, billing, collections, capital financing and related debt service and fixed assets of the water and sewer systems.
- **Stormwater Management Fund** is to account for the maintenance of and improvements to the City's stormwater infrastructure.
- **Golf Course Fund** is to account for the development and maintenance of the Sleepy Hole Golf Course and all other golf related activities of the City.

Internal Service Funds are used to account for the financing of goods and services provided by one department to other departments or agencies of the City or to other governments. Fleet Management, Information Technology and Risk Management are the City's internal service funds.

- **Fleet Management Fund** is to account for the financing of vehicles and the related maintenance, repairs and fuel costs of the City and to allocate operating costs to the various departments or agencies using the equipment based on cost reimbursement.
- **Information Technology Fund** is to account for the City's central computer systems and to allocate costs to the various departments or agencies using the service based on cost reimbursement.
- **Risk Management Fund** is to account for the funding and payment of auto, police liability, general liability, health and worker's compensation claims against the City, exclusive of the School Board employees. Charges to other funds are based on estimated claims for the year.

School Funds are used to account for the activities of the City of Suffolk Public School System. The appropriation by the City consolidates the funding for the existing three School funds. The School Operating Fund is the general accounting fund of the School System. It is used to account for all financial resources except those required to be accounted for in another fund. Revenues of this fund are derived from state and federal funds and an annual appropriation from the local government. The School Food Service Fund accounts for the revenues and expenditures relating to the operation of school cafeterias. Revenues are derived from state and federal funds and the sale of commodities. The School Grant Fund accounts for revenues and expenditures relating to grants received by the School System directly from the federal government.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet in the



funds statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of the governmental funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The government-wide statements of net assets and statements of activities, and proprietary funds, are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these activities are either included on the statement of net assets or on the statement of fiduciary net assets. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The fund financial statements of the Governmental Funds (for the primary government and component units) are maintained and reported on the modified accrual basis of accounting using the current financial resources measurement focus. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenue and other local taxes, the term "available" is limited to collection within forty-five days of the fiscal year-end. Levies made prior to the fiscal year-end but which are not available are deferred. Interest income is recorded as earned. Federal and State reimbursement-type grants are recorded as revenue when related eligible expenditures are incurred. Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.



Summary of Financial and Budget Policy Compliance

The City of Suffolk has established financial policies to ensure prudent financial practices and accountability of public funds managed by the City. The financial policies include guidelines for Revenues, Budget, Capital Improvements Planning, and Debt. A Finance Committee created by the Suffolk City Council meets on a regular basis to review and monitor compliance. As demonstrated in the attached copy of the City's financial policies and compliance summary, the City of Suffolk is achieving compliance with its financial policies. Highlights of each major compliance area include:

Revenues

- City fees and charges have been reviewed and updated in the FY 10 Operating and Capital Budget.
- Revenue collections are strong with collection rates between 96% to 99%.

Budget

- The FY 10 Operating and Capital Budget is balanced with current revenues supporting all current expenditures.
- A five year projection of revenues and expenditures is included in the FY 10 Operating and Capital Budget.
- The City has met the Undesignated General Fund balance policy goal of 10% of Governmental Fund Expenditures. The City's Undesignated General Fund balance is 11% of Governmental Fund Expenditures.
- The projected balance in the Risk Fund is anticipated to be sufficient to provide the required support in the FY 10 Operating and Capital Budget.

Capital Improvements Planning

- A 10 year Capital Improvements Plan has been prepared and adopted for use in the FY 10 budget year.
- The FY 10 Operating and Capital Budget includes 1.22% of General Fund departmental expenditures in cash funding in accordance with the five year FY 2012 escalation plan to achieve a 3% pay-as-you-go capital funding level.

Debt

- Debt as a percentage of assessed value is 2.16% for FY 10, below the 4% policy ceiling.
- Debt as a percentage of general government expenditures is 9.39% for FY 10, below the 10% policy ceiling.

CITY OF SUFFOLK



Financial Policies

Adopted: December 5, 2007

FY 10' Budget Status: Responses where appropriate for all compliance requirements for FY 10' are denoted in red.

**CITY OF SUFFOLK, VIRGINIA
FINANCIAL POLICIES**

POLICY PURPOSE

The City of Suffolk (the “City”) and its governing body, the City Council (the “Council”), is responsible to the City's citizens to carefully account for all public funds, to manage City finances wisely and to plan for the adequate funding of services desired by the public, including the provision and maintenance of facilities. The following financial policies and guidelines establish the framework for the City’s overall fiscal planning and management.

1.01 Policy Goals

This fiscal policy is a statement of the guidelines and goals that will influence and guide the financial management practices of the City. A fiscal policy that is adopted, adhered to, and regularly reviewed is recognized as the cornerstone of sound financial management. Effective fiscal policy:

- Contributes significantly to the City's ability to insulate itself from fiscal crisis,
- Enhances short term and long term financial credit ability by helping to achieve the highest credit and bond ratings possible,
- Promotes long term financial stability by establishing clear and consistent guidelines,
- Directs attention to the total financial picture of the City rather than single issue areas,
- Promotes the view of linking long term financial planning with day to day operations, and
- Provides the Council and the citizens a framework for measuring the fiscal impact of government services against established fiscal parameters and guidelines.

1.02 Policy Implementation and Coordination

The City has established a Finance Committee that meets approximately monthly to collectively review financial matters of the City, including the monitoring of financial activity cash and investment management, and compliance with certain policies outlined herein. Members of the Finance Committee include those individuals stipulated by ordinance adopted by City Council.

1.03 Review and Revision

These polices will be reviewed for appropriateness and comparability with AAA rated jurisdictions every three years or more frequently if a need for review is identified.

**CITY OF SUFFOLK, VIRGINIA
FINANCIAL POLICIES**

REVENUES

2.01 Revenue Diversification

The City will strive to maintain diversified and stable revenue streams to protect the government from problematic fluctuations in any single revenue source and provide stability to ongoing services.

Current revenues will fund current expenditures and a diversified and stable revenue system will be maintained to protect programs.

FY 10' Budget Status: - Local revenues are diversified; however, the decline of the national and state economy is impacting local revenues. Revenue declines are projected in the following areas in FY10': Personal Property (13%), Sales Tax (7%), Business License, Recordation Tax, Interest on Investments, and State and Federal aid.

2.02 Fees and Charges

All fees established by the City for licenses, permits, fines, services, applications and other miscellaneous charges shall be set to recover all or a portion of the City's expense in providing the attendant service. These fees shall be reviewed annually with the development of the annual operating budget.

FY 10' Budget Status: All city fees and charges are reviewed annually with revisions provided to recoup a fair portion of the City's expenses associated with the service provision. In FY 10', fees are added for enhanced curbside bulk refuse service and direct recreational programs including Summer Program Field Trips and TGIF Vendor Beverage Sales.

2.03 Revenue Collections

The City will strive to achieve an overall property tax collection rate of 100%.

FY 10' Budget Status: The City continues to maintain strong local collection rates varying from 96% to 99% for local taxes and fees with collection rates documented annually in the Comprehensive Annual Financial Report.

2.04 Use of Fund Balance

The City's General Fund equity balance will be utilized to provide sufficient working capital in anticipation of current budgeted revenues and to finance unforeseen emergencies without borrowing. The General Fund equity of the City (Undesignated Fund Balance) will not be used to finance current operations.

FY 10' Budget Status: The City budget has been balanced with current revenues supporting all current expenditures for FY 10'.

2.05 Restricted Revenue

Restricted revenue (such as Medicaid or Asset Forfeiture funds) shall only be used for the purpose intended and in a fiscally responsible manner.

**CITY OF SUFFOLK, VIRGINIA
FINANCIAL POLICIES**

FY 10' Budget Status: *The City budget utilizes restricted revenues strictly for the designated purpose and restricts all unspent balances available at year end for carryover to the following fiscal year for continued identified spending purposes.*

BUDGET

3.01 Balanced Budget

The provisions of the Code of Virginia shall control the preparation, consideration, adoption and execution of the budget of the City. In addition, the City Charter requires the budget to be balanced with planned expenditures equal to estimated revenues.

The City will annually adopt and execute a budget for such funds as may be required by law or by sound financial practices and generally accepted accounting principles. The budget shall control the levy of taxes and the expenditure of money for all City purposes during the ensuing fiscal year. The City budget shall be balanced within all available operating revenues, including the fund balance, and adopted by the City Council.

FY 10' Budget Status: *The FY 10' budget is balanced for all funds operated by the City denoting appropriate tax rates where applicable to sustain operations. Budget and tax rate ordinances have been appropriately prepared authorizing the appropriation of all required funds.*

3.02 Use of Current Revenues to Support Current Expenditures

Ongoing and stable revenues will be used to support ongoing operating costs.

FY 10' Budget Status: *The budget is dependent on stable revenues and conservative revenue estimates to support operations.*

3.03 Use of One-time Revenue and One-time Expenditure Savings

The use of one-time revenues and one-time expenditure savings (excess cash balances) will be used for non-recurring expenditures.

FY 10' Budget Status: All one time revenues are designated to support one-time expenditures.

3.04 Review of Fees and Charges

Fees established by the City for licenses, permits, fines, services, applications and other miscellaneous charges shall be set to recover all or a portion of the City's expense in providing the attendant service and reviewed annually with the development of the annual operating budget.

FY 10' Budget Status: *All city fees and charges are reviewed annually with revisions provided to recoup a fair portion of the City's expenses associated with the service provision. In FY 10', fees are added for enhanced curbside bulk refuse service and direct recreational programs including Summer Program Field Trips and TGIF Vendor Beverage Sales.*

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3.05 Revenue and Expenditure Projections

The City will prepare and annually update a long range (5 year) financial forecast model utilizing trend indicators and projections of annual operating revenues, expenditures, capital improvements and related debt service and operating costs, and fund balance levels.

FY 10' Budget Status: *A 5 year projection of revenues and expenditures has been prepared based on conservative assumptions, planned capital improvements and related debt service and operating costs noting projected fund balance levels and required real estate tax rate adjustments. This report is provided as an appendix to the budget.*

3.06 Budget Performance Monitoring

The Budget Department will maintain ongoing contact with the departmental fiscal officers during the process of the budget execution. Expenditure and revenue projections will be developed quarterly and reviewed with Departmental Directors, the Finance Committee of the City Council, the City Manager, and the City Council. The City Manager through the Budget and Finance Departments will exercise appropriate fiscal management as necessary to live within the limits of the adopted budget.

FY 10' Budget Status: *Quarterly revenue and expenditure projections have been provided beginning with FY 08' to Departmental Directors, the Finance Committee, the City Manager, and City Council noting positive results for all funds. All required budget adjustments have been reviewed and approved by the City Manager or designee to comply with budget requirements.*

3.07 Maintenance of Capital Assets

The budget should provide sufficient funds for regular repair and maintenance of capital assets.

FY 10' Budget Status: *The operating and capital budget provides adequate repair and maintenance funds to support City capital assets.*

3.08 Fund Balance Levels

The City will employ sound financial management principles to include the establishment of an undesignated fund balance sufficient to maintain required working capital and provide a reserve for unanticipated expenditures or emergencies, revenue shortfalls, and other non-recurring uses.

The ratio of Undesignated General Fund balance as a percentage of Governmental Funds Expenditures (net of the General Fund Contribution to Schools, transfer to other Governmental Funds, and Capital Projects Fund Expenditures) plus expenditures in the School Operating and Food Service Funds indicates the ability of the City to cope with unexpected financial problems or emergencies. The larger the Undesignated General Fund balance, the greater the City's ability to cope with financial emergencies and fluctuations in revenue cycles. The City has established a target rate of 10 % at the close of each fiscal year.

Once the undesignated general fund balance target is achieved by the City, it is intended to be maintained for the upcoming fiscal year from prior year surpluses and budgeted additions as available before any other needs are addressed. In the event Undesignated Fund Balance is required to be drawn below the 10% target

CITY OF SUFFOLK, VIRGINIA FINANCIAL POLICIES

rate due to an emergency (such as a natural disaster) or due to severe economic circumstances, the City will develop a plan to restore the Undesignated Fund Balance over the ensuing two to three years.

Compliance with fund balance policy will be reviewed and reported to City Council at least annually in conjunction with the development of the operating budget and with any significant budget amendments made during the fiscal year.

FY 10' Budget Status: *The FY 09' undesignated General Fund balance is projected to exceed the targeted 10% by the close of the fiscal year.*

3.09 Self-Insurance Rate Stabilization Fund

The City will strive to maintain a rate stabilization fund for its insured risks in an amount equal to 20% of anticipated annual premium costs. This rate stabilization fund may be reduced or increased by management based on professional judgment and anticipated claims cost estimates.

FY 10' Budget Status: *The projected balance in the Risk Fund at June 30, 2009 is anticipated to be sufficient to provide the required \$2,000,000 in rate stabilization funds to support the FY 10' budget. A transfer of \$1,632,290 from the Risk Fund to the Capital Projects Fund is provided in FY 10'. The transfer is provided as partial repayment for the loan made in FY 08' to address the deficit in the Risk Fund. Funds transferred from the Risk Fund will be used for a one-time purpose to support capital project expenses.*

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FINANCIAL POLICIES

CAPITAL IMPROVEMENTS PLANNING

4.01 Capital Improvement Program

In order to prepare and plan for upcoming capital needs, comply with debt ratio targets, schedule debt issuance, and systematically improve capital infrastructure, the City will annually prepare and adopt a minimum five-year Capital Improvement Plan.

The adopted Capital Improvement Plan will include major capital improvements and identify estimated revenue sources and annual operational costs for facilities to include anticipated debt service requirements.

Capital improvements do not include routine maintenance on existing capital assets.

***FY 10' Budget Status:** A 10 year Capital Improvements Plan is prepared and updated annually providing 5 years of detailed projects, revenue sources, debt requirements and annual operating costs. This plan is prepared by the City Manager and reviewed by a committee to include members of the Planning Commission and the City's elected Finance Committee members. The plan is reviewed, edited, and recommended by the Planning Commission to the City Council who in turn, reviews, edits and adopts the plan for consideration of year one projects in the upcoming budget proposal. A current CIP was adopted by Council in February 2009 for use in the FY 10' budget.*

4.02 Pay-As-You-Go Capital Improvement Funding

The City will develop an escalation plan to accomplish an annual allocation of an amount equal to 3% of the General Fund departmental expenditures (excluding transfers out, grants, fund balance and reserve allocations, debt service, and respective flow-through expenditures) to pay-as-you-go-capital improvements annually.

The escalation plan will begin with the FY 08 adopted budget and shall be increased annually for the ensuing five (5) year period until the 3% target is achieved.

***FY 10' Budget Status:** The budget includes \$1,500,000 in cash funded projects or 1.22% of General Fund departmental expenditures for FY 10'. This represents an increase of \$129,000 over the prior year furthering projected policy compliance estimated for FY 10'.*

CITY OF SUFFOLK, VIRGINIA FINANCIAL POLICIES

DEBT

The City Council generally follows the guidelines listed below in making financial decisions on debt issuance. Adherence to these guidelines allows the City to plan for the necessary financing of capital projects while maintaining credit worthiness. In addition, continued adherence to these policies will ensure the City's strong financial position.

The City shall use an objective analytical approach to determine whether it can afford new or additional general purpose debt. This process shall use the City's standards of affordability. These standards include the measures of debt service payments as a percent of current expenditures and debt as a percent of taxable real estate value.

5.01 Revenue Anticipation Notes (RANS)

The City does not intend to issue tax or revenue anticipation notes (RANS) to fund government operations but rather to manage cash in a fashion that will prevent any borrowing to meet working capital needs.

The City may issue RANS in an extreme emergency beyond the City's control or ability to forecast when the revenue source will be received subsequent to the timing of funds needed. Such issuances will be for a period not to exceed a one year period.

5.02 Bond Anticipation Notes (BANS)

The City may issue Bond Anticipation Notes (BANS) in expectation of General Obligation or Revenue Bonds when cash is required in order to initiate or continue a capital project or when long-term markets do not appear appropriate but have a clear potential for improvement within the designated BAN time frame.

The City will not issue Bond Anticipation Notes (BANS) for a period beyond two years. If the City issues a bond anticipation note for a capital project, the BAN will be converted to a long-term bond or redeemed at its expiration.

5.03 Letters of Credit

The City may enter into a letter-of-credit (LOC) agreement when such an agreement is deemed prudent and advantageous. The City will prepare and distribute a request for proposals to qualified banks which includes terms and conditions that are acceptable to the City.

5.04 Lease Purchase Obligations

Lease purchase and master lease obligations, including certificates of participation or lease revenue bonds, shall be considered as an alternative to long-term vendor leases. Such debt shall be subject to annual appropriation.

CITY OF SUFFOLK, VIRGINIA FINANCIAL POLICIES

5.05 Public Private Partnerships

The City recognizes the value of developing public-private partnerships. As such, public-private partnerships financings that require the City to provide capital or credit enhancement to a project will be considered in light of the following:

- The project is multi-faceted requiring coordinated and/or accelerated development;
- The project is non-traditional with mixed use of public and private components;
- The project calls for the bundling of design, construction and operation phases; or
- There is an urgent need to construct multiple facilities or other public infrastructure simultaneously to keep pace with a rapidly growing population.
- The project has undergone a rigorous cost-benefit analysis by City Staff (or agents employed by the City for such purpose). If the project ultimately requires City credit enhancement, such obligations will be treated as if debt by the City.

5.06 Compliance with Legal Requirements

Pursuant to the Constitution of Virginia (the Constitution), the City is authorized to issue bonds secured by a pledge of its full faith and credit and unlimited taxing power. There is no requirement in the Constitution, the Virginia Code or the City Charter that the issuance of general obligation bonds be subject to the approval of voters of the City at referendum. The issuance of general obligation bonds is subject to a constitutional limitation of ten percent (10%) of the assessed value of taxable real property. The City's Charter further limits the issuance of general obligation bonds to seven percent (7%) of the assessed value of taxable property.

5.07 Debt Ratio Policies

Ceiling **FY 10' Status**

Debt as a Percentage of Assessed Value

4% **2.16%**

This ratio indicates the relationship between the City's debt and the total taxable value of real and personal property in the City. It is an important indicator of the City's ability to repay debt, because property taxes are the source of the City's revenues used to repay debt. A small ratio is an indication that the City will be better able to withstand possible future economic downturns and continue to meet its debt obligations.

Debt as a Percentage of General Government Expenditures

10% **9.39%**

This ratio is a measure of the City's ability to repay debt without hampering other City services. A smaller ratio indicates a lesser burden on the City's operating budget. The numerator shall include debt that is not self-supporting from a user fee revenue stream. A self-supporting revenue stream is defined as a revenue stream that provides coverage of all debt service obligations

CITY OF SUFFOLK, VIRGINIA FINANCIAL POLICIES

without general fund support (to include tax assessment districts and funds supported by committed state revenues in support of such debt). Any long term financing lease obligations which may be subject to annual appropriation by the City will also be included in the calculations of tax-supported debt service. General governmental expenditures are expenditures reported in the City's governmental funds (excluding the General Fund Contribution to Schools and the Capital Projects Fund) and expenditures reported in the School Operating and Food Service Funds.

Compliance with the above debt policy ratios will be calculated each fiscal year in conjunction with the budget development process and provided to Council with the proposed annual budget.

5.08 Long Term Debt Policy

The City will use debt financing for capital improvement projects and unusual equipment purchases under the following circumstances:

- A. When the project is included in the City's capital improvement program and/or is generally in conformance with the City's Comprehensive Plan.
- B. When the project is not included in the City's Capital Improvement Program, but it is an emerging critical need whose timing was not anticipated in the Capital Improvement Program, or it is a project mandated immediately by state or federal requirements.
- C. When the project's useful life, or the projected service life of the equipment, will be equal to or exceed the term of the financing.
- D. When there are designated revenues sufficient to service the debt, whether from project revenues, other specified and reserved resources, or infrastructure cost sharing revenues.

The following criteria will be used to evaluate funding options for capital improvements:

- A. Factors that favor pay-as-you-go:
 1. Current revenues and adequate fund balances are available.
 2. Project phasing is feasible.
 3. Debt levels would adversely affect the City's credit rating.
 4. Financial market conditions are unstable or present difficulties in marketing the sale of long-term financing investments.
- B. Factors that favor long-term financing:
 1. Revenues available for debt service are considered sufficient and reliable so that long-term financing can be marketed with the highest possible credit rating.
 2. The project for which financing is being considered is of the type that will allow the City to maintain the highest possible credit rating.
 3. Market conditions present favorable interest rates and demand for municipal financings.
 4. A project is mandated by state or federal requirements and current revenues and fund balances are insufficient to pay project costs.
 5. A project is immediately required to meet or relieve capacity needs.

CITY OF SUFFOLK, VIRGINIA FINANCIAL POLICIES

There are many different types of long-term debt instruments available. Depending on the specific circumstances, the City will consider using the following types of financing instruments:

- General Obligation Bonds
- General Obligation Bonds sold to Virginia Public School Authority for School Capital Projects
- Revenue Bonds
- Certificates of Participation
- Lease Revenue Bonds
- Selected State Pooled-Borrowing Programs for Utility Revenue Bonds, Including Those of the Virginia Resources Authority.

5.09 Bond Structure

The City shall establish all terms and conditions relating to the issuance of bonds, and will invest all bond proceeds pursuant to the terms of the City's Investment Policy. Unless otherwise authorized by the City, the following shall serve as bond requirements:

1. **Term.** All capital improvements financed through the issuance of debt will be financed for a period not to exceed the useful life of the improvements, but in no event will the term exceed thirty (30) years.
2. **Capitalized Interest.** From time to time certain financings may require the use of capitalized interest from the issuance date until the City has beneficial use and/or occupancy of the financed project. Interest shall not be funded (capitalized) beyond three years or a shorter period if further restricted by law. Interest earnings may, at the City's discretion, be applied to extend the term of capitalized interest but in no event beyond the term allowed by law.
3. **Debt Service Structure.** Debt issuance shall be planned to achieve relatively equal payment of principal (declining debt service) while matching debt service to the useful life of facilities. The City shall avoid the use of bullet or balloon maturities except in those instances where these maturities serve to make existing overall debt service level. The City may elect a less rapid or other debt service structure, such as level debt service at its discretion.
4. **Call Provisions.** In general, the City's debt will include an early redemption (or "call") feature, which is no later than 10 years from the date of delivery of the bonds. The City will avoid the sale of non-callable bonds absent careful, documented evaluation by the City in conjunction with its financial advisor with respect to the value of the call option.
5. **Original Issue Discount.** An original issue discount will be permitted if the City determines that such discount results in a lower true interest cost on the bonds and that the use of an original issue discount will not adversely affect the project funding.
6. **Deep Discount Bonds.** Deep discount bonds may provide a lower cost of borrowing in certain markets. The City will carefully consider their value and effect on any future refinancings as a result of the lower-than-market coupon associated with deep discount bonds.
7. **Derivative Structures.** Alternative, non-traditional financing structures such as derivatives are becoming more common in the municipal market. Structured properly these products frequently provide a means for the City to achieve its goals in a cost effective manner.

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The City will consider the use of derivatives as a hedge against future interest rate risk or to create “synthetic” fixed rate or variable rate debt, when appropriate. The City will not use derivative structures for speculative or investment purposes. The City will consider the use of derivative structures when it is able to gain a comparative borrowing advantage, and is able to quantify and understand potential risks. Prior to the use of such structures, the City will consider the adoption of a comprehensive Swap and Derivative Management Plan that is consistent and does not conflict in principle with this governing policy. Prior to use of a derivative structure, the City will provide written communication to City Council describing potential risks associated with each proposed derivative structure.

5.10 Variable Rate Debt

To maintain a predictable debt service burden, the City may give preference to debt that carries a fixed interest rate. The City, however, may consider variable rate debt. The percentage of variable rate debt outstanding (excluding debt which has been converted to synthetic fixed rate debt) shall not exceed 20% of the City’s total outstanding debt and will take into consideration the amount and investment strategy of the City’s operating cash. The City will consider issuing variable rate debt to:

- a) Match Asset and Liabilities: By issuing variable rate debt the City matches variable interest rates to its short-term investment assets.
- b) Potentially Lower Debt Service Costs: Historically variable interest rates are less than fixed rate cost of capital.
- c) Add Flexibility and Diversity to the City’s Debt Structure: Variable rate bonds are traditionally callable every 30 days and can generally be refunded on a fixed rate basis to take advantage of low fixed rates and open up variable rate capacity for higher rate environments.

In determining its use of variable rate debt, the City will utilize an analysis from the City’s Financial Advisor evaluating and quantifying the risks and returns involved in the variable rate financing.

5.11 Refinanced Outstanding Debt

The Director of Finance with assistance from the City’s Financial Advisor will have the responsibility to analyze outstanding bond issues for refunding opportunities. The City will consider the following issues when analyzing possible refunding opportunities:

1. **Refunding Policy.** The City establishes a minimum aggregate present value savings threshold of 3% of the refunding bond principal amount. The present value savings will be net of all costs related to the refinancing. Debt service savings may be taken in equal amounts over time or on an upfront or deferred basis, at the City’s discretion.
2. **Restructuring.** The City will refund debt when it is in the best financial interest of the City to do so. Such refundings will be limited to restructuring to meet unanticipated revenue expectations, achieve costs savings, mitigate irregular debt service payments release reserve funds or remove unduly restrictive bond covenants.

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3. **Term of Refunding Issues.** The City will refund bonds within the term of the originally issued debt. However, the City may consider maturity extension, when necessary to achieve a desired outcome, provided that such extension is legally permissible. The City may also consider shortening the term of the originally issued debt to realize greater savings. The remaining useful life of the financed facility and the concept of inter-generational equity should guide this decision.
4. **Escrow Structuring.** The City shall utilize the least costly securities available in structuring refunding escrows. A certificate will be provided by a third party agent stating that the securities were procured through an arms-length, competitive bid process (in the case of open market securities), and that the price paid for the securities was reasonable within Federal guidelines. Under no circumstances shall an underwriter, agent or financial advisor sell escrow securities to the City from its own account.
5. **Arbitrage.** The City shall take all necessary steps to optimize escrows and to avoid negative arbitrage in its refundings. Any resulting positive arbitrage will be rebated as necessary according to Federal guidelines.

5.12 Methods of Issuance

The City will determine the method of issuance on a case-by-case basis.

1. **Competitive Sale.** In a competitive sale, the City's bonds shall be awarded to the bidder providing the lowest true interest cost as long as the bid adheres to the requirements set forth in the official note of sale.
2. **Negotiated Sale.** The City recognizes that some securities are best sold through negotiation. In its consideration of a negotiated sale, the City shall assess the following circumstances:
 - a. Bonds issued as variable rate demand obligations
 - b. A structure which may require a strong pre-marketing effort such as a complex transaction or a "story" bond
 - c. Size of the issue which may limit the number of potential bidders
 - d. Market volatility is such that the City would be better served by flexibility in timing a sale in a changing interest rate environment
3. **Private Placement.** From time to time the City may elect to privately place its debt. Such placement shall be considered if other methods are not viable.

5.13 Bond Insurance

The City may purchase bond insurance when such purchase is deemed prudent and advantageous. Use of bond insurance shall be based on such insurance being less costly than the present value of the difference between the interest on insured bonds versus uninsured bonds.

In the case of a competitive sale, the City may permit bidders for its bonds to purchase bond insurance if such insurance will enhance the market reception and lower the interest rate on the City's bonds. The City

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will submit an application for pre-qualification for insurance to facilitate bidders' ability to purchase bond insurance. The winning bidder in a competitive sale will bear any associated cost with such enhancement.

In the instance of a negotiated sale, the City will solicit quotes for bond insurance from interested providers. The City will select a provider whose bid is most cost effective and whose terms and conditions governing the guarantee are satisfactory to the City.

5.14 Use of Special Districts

The City may consider using special districts such as Tax Increment Financing Districts, Community Development Authorities and special taxing districts to finance projects that:

- Strengthen the employment and economic base of the City;
- Increase property values and tax revenues;
- Reduce poverty;
- Create economic stability;
- Facilitate economic self-sufficiency; or
- Assist in implementing the City's economic development strategies.

Before using such districts, the City will consider the fiscal impact, the market feasibility and credit implications of the project or district.

5.15 Debt Service Reserves

If necessary, the City may establish a reserve fund funded from bond proceeds, subject to federal tax regulations and in accordance with the requirements of credit enhancement providers and/or rating agencies. The City may purchase reserve equivalents (i.e., a reserve fund surety or letter of credit) when such purchase is deemed prudent and advantageous. Such equivalents shall be evaluated in comparison to cash funding of reserves on a net present value basis.

5.16 Underwriter Selection

Senior Manager Selection. The City shall select a senior manager for any proposed negotiated sales. The selection criteria shall include but not be limited to the following:

- The firm's ability and experience in managing transactions similar to that contemplated by the City
- Prior knowledge and experience with the City
- The firm's ability and willingness to risk capital and demonstration of such risk and capital availability
- Quality and experience of personnel assigned to the City's engagement
- Financing plan presented
- Underwriting fees

Co-Manager Selection. Co-managers may be selected on the same basis as the senior manager. In addition to their qualifications, co-managers appointed to specific transactions will be a function of transaction size and the necessity to ensure maximum distribution of the City's bonds.

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Selling Groups. The City may establish selling groups in certain transactions. To the extent that selling groups are used, the Director of Finance at his or her discretion, may make appointments to selling groups from within the pool of underwriters or from outside the pool, as the transaction dictates.

Underwriter's Counsel. In any negotiated sale of City debt in which legal counsel is required to represent the underwriter, the appointment will be made by the Senior Manager with input from the City.

Underwriter's Discount. The Director of Finance with assistance from the City's financial advisor will evaluate the proposed underwriter's discount against comparable issues in the market. If there are multiple underwriters in the transaction, the Director of Finance will determine the allocation of underwriting liability and management fees.

The allocation of fees will be determined prior to the sale date; a cap on management fee, expenses and underwriter's counsel will be established and communicated to all parties by the Director of Finance. The senior manager shall submit an itemized list of expenses charged to members of the underwriting group. Any additional expenses must be substantiated.

Evaluation of Underwriter Performance. The City will evaluate each bond sale after completion to assess the following: costs of issuance including underwriters' compensation, pricing of the bonds in terms of the overall interest cost and on a maturity-by-maturity basis, and the distribution of bonds and sales credits.

Following each sale, the Director of Finance shall provide a report to the City Manager and City Council on the results of the sale.

Syndicate Policies. For each negotiated transaction, the Director of Finance will prepare syndicate policies that will describe the designation policies governing the upcoming sale. The Director of Finance shall ensure receipt of each member's acknowledgement of the syndicate policies for the upcoming sale prior to the sale date.

Designation Policies. To encourage the pre-marketing efforts of each member of the underwriting team, orders for the City's bonds will be net designated, unless otherwise expressly stated. The City shall require the senior manager to:

- Equitably allocate bonds to other managers and the selling group
- Comply with MSRB regulations governing the priority of orders and allocations
- Within 10 working days after the sale date, submit to the Director of Finance a detail of orders, allocations and other relevant information pertaining to the City's sale.

5.17 Consultants

Financial Advisor. The City shall select a financial advisor (or advisors) to assist in its debt issuance and debt administration processes. Selection of the City's financial advisor(s) shall be based on, but not limited to, the following criteria:

- Experience in providing consulting services to entities similar to the City

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- Knowledge and experience in structuring and analyzing bond issues
- Experience and reputation of assigned personnel
- Fees and expenses

Conflicts of Interest. The City requires that its consultants and advisors provide objective advice and analysis, maintain the confidentiality of City financial plans, and be free from any conflicts on interest.

Bond Counsel. City debt will include a written opinion by legal counsel affirming that the City is authorized to issue the proposed debt, that the City has met all legal requirements necessary for issuance, and a determination of the proposed debt's federal income tax status. The approving opinion and other documents relating to the issuance of debt will be prepared by counsel with extensive experience in public finance and tax issues. The Bond Counsel will be selected by the City.

Disclosure by Financing Team Members. All financing team members will be required to provide full and complete disclosure, relative to agreements with other financing team members and outside parties. The extent of disclosure may vary depending on the nature of the transaction. However, in general terms, no agreements shall be permitted which could compromise the firm's ability to provide independent advice which is solely in the City's best interests or which could reasonably be perceived as a conflict of interest.

5.18 City Financial Disclosure

The City is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, City departments, and the general public to share clear, comprehensive, and accurate financial information. The City is committed to meeting secondary market disclosure requirements on a timely and comprehensive basis.

CITY OF SUFFOLK, VIRGINIA
FINANCIAL POLICIES

GLOSSARY

Arbitrage. The difference between the interest paid on the tax-exempt securities and the interest earned by investing the security proceeds in higher-yielding taxable securities. IRS regulations govern arbitrage on the proceeds from issuance of municipal securities.

Balloon Maturity. A later maturity within an issue of bonds which contains a disproportionately large percentage of the principal amount of the original issue.

Bond Anticipation Notes (BANs). Notes which are paid from the proceeds of the issuance of long-term bonds. Typically issued for capital projects.

Bullet Maturity. A maturity for which there are no principal and/or sinking fund payments prior to the state maturity date.

Call Provisions. The terms of the bond giving the issuer the right to redeem all or a portion of a bond prior to its stated date of maturity at a specific price, usually at or above par.

Capitalized Interest. A portion of the proceeds of a bond issue which is set aside to pay interest on the same bond issue for a specific period of time. Interest is commonly capitalized for the construction period of the project.

Commercial Paper. Very short-term, unsecured promissory notes issued in either registered or bearer form, and usually backed by a line of credit with a bank.

Community Development Authority (CDA). A Community Development Authority (CDA) is a separate authority that may be used to foster growth and development in a special taxing district. A CDA can issue debt for public purpose infrastructure paid for with tax revenues generated within the special taxing district. Public purpose infrastructure includes, but is not limited to: Roads, bridges, sidewalks, traffic signals, Parking facilities; Storm water management systems; Parks and recreational facilities; Fire Stations and equipment; and Schools and related structures. Generally, a CDA can be formed by City Council at the request of 51% or more of the landowners within the proposed district. Under state law, the District's special tax rate cannot exceed \$0.25 per \$100 of assessed value.

Competitive Sale. A sale/auction of securities by an issuer in which underwriters or syndicates of underwriters submit sealed bids to purchase the securities. Contrast to a negotiated sale.

Continuing Disclosure. The principle that accurate and complete information material to the transaction which potential investors would be likely to consider material in making investment decisions with respect to the securities be made available on an ongoing basis.

Credit Enhancement. Credit support purchased by the issuer to raise the credit rating of the issue. The most common credit enhancements consist of bond issuance, direct or standby letters of credit, and lines of credit.

CITY OF SUFFOLK, VIRGINIA
FINANCIAL POLICIES

Debt Service Reserve Fund. The fund in which moneys are placed which may be used to pay debt service if pledged revenues are insufficient to satisfy the debt service requirements.

Deep Discount Bonds. Bonds which are priced for sale at a substantial discount from their face or par value.

Derivatives. A financial product whose value is derived from some underlying asset value.

Designation Policies. Outline how an investor's order is filled when a maturity is oversubscribed when there is an underwriting syndicate. The senior managing underwriter and issuer decide how the bonds will be allocated among the syndicate. There are three primary classifications of order which form the designation policy: Group Net orders; Net Designated orders and Member orders.

Escrow. A fund established to hold moneys pledged and to be used to pay debt service on an outstanding issue.

Expenses. Compensates senior managers for out-of-pocket expenses including: underwriters counsel, DTC charges, travel, syndicate expenses, dealer fees, overtime expenses, communication expenses, computer time and postage.

General Obligations. Bonds issued by the City secured by the City's pledge of its full faith and credit and unlimited taxing power.

Hedge. A transaction that reduces the interest rate risk of an underlying security.

Intergenerational Equity. Equity or fairness principle that those that benefit from a capital improvement should pay for it.

Interest Rate Swap. The exchange of a fixed interest rate and a floating interest rate between counterparties.

Letters of Credit. A bank credit facility wherein the bank agrees to lend a specified amount of funds for a limited term.

Management Fee. The fixed percentage of the gross spread which is paid to the managing underwriter for the structuring phase of a transaction.

Members. Underwriters in a syndicate other than the senior underwriter.

Negotiated Sale. A method of sale in which the issuer chooses one underwriter to negotiate terms pursuant to which such underwriter will purchase and market the bonds.

Original Issue Discount. The amount by which the original par amount of an issue exceeds its public offering price at the time it is originally offered to an investor.

Pay-As-You-Go. An issuer elects to finance a project with existing cash flow as opposed to issuing debt obligations.

CITY OF SUFFOLK, VIRGINIA FINANCIAL POLICIES

Present Value. The current value of a future cash flow.

Private Placement. The original placement of an issue with one or more investors as opposed to being publicly offered or sold.

Rebate. A requirement imposed by Tax Reform Act of 1986 whereby the issuer of tax-exempt bonds must pay the IRS an amount equal to its profit earned from investment of tax-exempt bond proceeds at rates exceeding the tax-exempt borrowing rate. The tax-exempt borrowing rate (or “bond yield”) is calculated pursuant to the IRS code together with all income earned on the accumulated profit pending payment.

Revenue (Limited Liability) Bonds. Bonds issued by the City secured by a specific revenue pledge of rates, rents or fees.

Selling Groups. The group of securities dealers who participate in an offering not as underwriters but rather who receive securities less the selling concession from the managing underwriter for distribution at the public offering price.

Syndicate Policies. The contractual obligations placed on the underwriting group relating to distribution, price limitations and market transactions.

Tax Increment Financing District (TIF). A Tax Increment Financing District (TIF) district is a public financing technique primarily used to foster economic development projects. Upon creation of a TIF district, a base year and base assessment is established and over time incremental increases in the TIF district’s real estate assessments and associated real estate tax revenues accrue to the TIF district and may be used to pay debt service.

Underwriter. A dealer that purchases new issues of municipal securities from the Issuer and resells them to investors.

Underwriter’s Discount. The difference between the price at which bonds are bought by the Underwriter from the Issuer and the price at which they are reoffered to investors.

Variable Rate Debt. An interest rate on a security which changes at intervals according to an index or a formula or other standard of measurement as stated in the bond contract.